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SUBJECT: Guangdong's Cosmetic Makers Sees Stronger Safety Regulation
for Exports, Not for the Domestic Market

REF: 07 GUANGZHOU 966

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11. (U) Summary: The Chinese government's regime for protecting
consumers from unsafe cosmetic products has strengthened in the last
year -- foreign consumers that is. Executives in Guangdong's
cosmetic manufacturing industry point out that government testing
and inspection of export products has increased but this has not
necessarily been the case for products sold on the domestic market.
In addition, some warn that intense price competition may be leading
some manufacturers to cut corners when it comes to product quality.
Manufacturers complain that the regulatory structure is too
complicated, coordination between agencies is still lacking and some
products may fall through the cracks in the oversight system. End
summary.

A Stronger Product Safety Regime...for Some

12. (SBU) Chinese government agencies have tightened testing and
inspection regimes that monitor the safety of cosmetic exports over
the last year, but, according to multinational and local
manufacturers, little has changed in terms of monitoring products
sold on the domestic market. Lisa Wu, Manager of Regulatory,
Compliance, and Analytical Science for Colgate-Palmolive
(Guangzhou), told us that Colgate sees firsthand the disparity that
exists in the treatment of its products for the two markets. She
noted that Colgate maintains a much closer relationship with
Guangdong's China Inspection and Quarantine (GD CIQ) office, which
is responsible for monitoring product quality for exports, than with
the provincial Technical Supervision Bureau (GD TSB), GD CIQ's
domestic counterpart, even though most of the products it makes here
(about 60 percent) are destined for the local market. According to
Wu, GD CIQ takes samples from every shipment, but GD TSB visits the
Colgate plant only twice a year.

13. (SBU) Echoing Wu's comments, Bill Li, Procter and Gamble's (P&G)
Associate Director for Regulatory & Consumer Relations in greater
China, noted that over the last twelve months, his firm had observed
much stricter regulation of products intended for foreign markets,
with GD CIQ testing nearly every shipment. In contrast, Jiang
Shenxiao, the manager of Guangzhou Pure Cosmetic Co, Ltd., which
sells only to the domestic market, said that he had not observed any

stricter government regulation of his company's products in recent years.

Price Competition Leading to Product Quality Shortcuts?

14. (SBU) At the same time, some producers warn that fierce price competition may be leading some manufacturers to cut corners on product quality. Liu Dong, the manager of Colornow Cosmetics Limited, a Guangzhou cosmetics manufacturer, explained that his company is finding it difficult to expand domestic sales due to fierce industry competition. Liu argued that Colornow takes product quality seriously, pointing out that it sends every new product to SGS, an internationally renowned third-party testing company, and employs sophisticated, but costly, testing equipment. However, he believes that smaller manufacturers would be unwilling to make a similar investment in quality assurance.

15. (SBU) Guangzhou Pure Cosmetic's Jiang also commented that intense competition among international brands and thousands of domestic brands could affect quality. Although he asserted that his company had not sacrificed product quality, he noted that there was strong pressure from increasing costs for labor and raw materials to consider doing so. Jiang said that his company had reduced staff and eliminated some salary increases in order to cope with these rising costs.

Complicated Regulatory System Causes Headaches...

16. (SBU) Guangzhou's cosmetics makers complain that the complex web

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of regulations and regulatory agencies that oversee product quality for the industry is not only confusing but also counterproductive because so many agencies perform similar functions. Several executives pointed out that they must get both a production license from TSB and a sanitation license from the Guangdong Food and Drug Administration even though the procedures are similar and subsequent inspections by the two agencies are virtually identical. P&G's Li commented that the central government should recognize that it has limited resources and thus should streamline the whole process to achieve its product safety goals. He commented that the recent merging of State Food and Drug Administration (SFDA) into the Ministry of Health was a step in the right direction, but there was still a lot of overlap among different agencies.

17. (SBU) Several companies highlighted regulations on labeling and advertising as particularly problematic, especially those governed by the Administration for Industry and Commerce (AIC). According to Colgate's Lisa Wu, AIC is not adequately equipped to test the validity of advertising claims. Even if the claims are supported by clinical studies conducted by third parties, AIC often rejects them and issues fines, she said. She remarked that AIC had been slower to adopt a customer service mindset than other government agencies. Moreover, some executives expressed suspicion that AIC officials received bonuses based on the fines they levy.

...and Creates Cracks and Loopholes

18. (SBU) With so many agencies and little coordination, it is not surprising that some things will fall through the cracks and that loopholes will emerge -- which is exactly what happened in the case of toothpaste and beauty salons. AQSIQ has classified toothpaste as a cosmetic product since 2007. However, the Ministry of Health, which oversees the local FDA offices, does not. Guangdong FDA officials confirmed to us that because they do not classify toothpaste as a cosmetic, they are not responsible for regulating and supervising its manufacture. Nevertheless, they told us that the agency had strongly recommended that toothpaste be classified as cosmetic because current government oversight for the product was not sufficient.

19. (SBU) Colornow's Liu pointed out that a similar problem existed in the regulation of products sold at beauty salons. He said that

supermarkets and beauty salons served as the two major retail channels for hair products in China. Supermarkets strictly control the labeling and packaging of products, but beauty salons actually have much lower standards, according to Liu. He believes that this disadvantages consumers and the government should invest more in monitoring products sold through salons.

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